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General Business Conditions

THE business outlook in this country at the New Year is one of both high promise and challenge, in the sense that an unprecedented volume of industrial and trade activity is in sight if the necessary unity, effort and understanding are forthcoming. An inquiry addressed at this time to either the manufacturing or the service industries would bring in almost every case the response that an enormous and urgent demand exists for nearly everything that can be produced. In most cases it would be added that this demand cannot be satisfied for a long time to come. A vast amount of work to be done looms up in construction and in capital goods generally, to make up for the lack of development during the war. The demand for goods for consumption seems to have no limit.

Christmas trade, in dollar volume, again has broken all records despite the shortages of staple merchandise, for buyers have had the money and the willingness to pay high prices for whatever the stores could offer. Impressive as the sales figures have been, they do not signify satiation of the consumer markets; rather, shortages in all the durable consumers' goods and in many of the non-durables as well dominate the prospect.

The Christmas trade shows the mistake made by those who feared a period of deflation and depression around this time, and other evidence of the same kind is at hand. The Census Bureau's estimate of unemployment for November was again a revelation, for the total of those out of work and looking for jobs was put at only 1,580,000, an increase of only 40,000 in a month. Meanwhile workers are still scarce in many places and many trades. The industrial production index of the Federal Reserve Board for November rose to 171 (1935-39=100) compared with 163 in October. Although this improvement may not mark a lasting turn upward, in view of strikes and other hindrances, there is no evidence that December has shown any significant recession. Finally, the national income, as estimated by the Department of Commerce, in October was larger than in September. The increase was small and was accounted for by mustering-out payments and unemployment compensation; but the significant fact remains that wage and salary payments by business showed only a trivial decline instead of the sharp drop that many had expected.

In hardly a market is a spirit of hesitation to be found. Confidence in demand, which springs from the urgent needs all over the world, influences all buyers. As to the general price level, the chief question in most minds is not which way prices are likely to move but rather how much they may rise.

Opportunity and Challenge

There have been few New Years in the country's history when it has been possible to look forward so confidently to demand during the coming year. In this outlook lies an unparalleled opportunity, not merely for the individual producer or seller but for the country as a whole. A great volume of business, high employment, and an unequalled standard of living are within reach, if all elements in the economic organization work together.

The first consideration of all in 1946 should be to realize this opportunity, and to understand that it can be realized only through production. To think of it in any other terms, as of money wages or other money income, obscures the real nature of the problem; and when aspirations for a higher living standard lead to stress on money income at the expense of impairing production — as is now the case in automobiles and many other goods — they are self-defeating.

The second consideration should be to promote stability and order, so that the activity may last. The enemy of stability is inflation. In trade and markets the signs are plain that inflation is working. On many fronts—in wage and price policies, in fiscal policy, in the decisions of people to spend or save, or to work well or poorly — moves that can swing the battle against it one way or the other are being made. The most certain preventive and cure, effective above all others, is production.

"Fact-Finding" and "Ability to Pay"

President Truman's proposal of "fact-finding" and a cooling-off period as the solution of wage disputes is the principal new development in the labor situation. In his speech to the nation October 30 the President had asked labor and management to compose their differences without federal intervention, and he had high hopes that the Labor-Management Conference in Washington in November would contribute toward a general settlement. However, little that was immediately helpful came of the Conference. Meanwhile the General Motors strike was called. The steel workers have voted to strike, and walkouts of electrical, telephone, packing house and building workers, among others, in January are threatened.

On December 3rd Mr. Truman sent a special message to Congress declaring that the Government must act. He asked that he be authorized to appoint a fact-finding board in each dispute vitally affecting the public interest, and that strikes and lockouts be declared unlawful during a thirty-day period covering the board's appointment and work and the reception of its report. The board would have power to subpoena individuals and records. Neither side would be obligated by law to accept its recommendations, public opinion being relied upon to bring about agreement.

Bills to carry out the President's request were introduced promptly in both Houses of Congress, but were not acted on before the holiday recess. Meanwhile the President appointed a board (without statutory powers) to act in the General Motors case, and asked the strikers to go back to work.

Reception of the President's Proposal

The President's proposal has had a frigid reception from the labor union leaders, who object to the thirty-day cooling off period as an infringement of the right to strike. Mr. Murray of the C.I.O. has said that the Department of Commerce and the economists of the Office of War Mobilization and Reconversion have demonstrated that industry can pay wage increases, and that no further facts are needed.

Industrial managers — while ready to supply facts as to hours, earnings, relative wage scales, etc. — have expressed opposition to being compelled to disclose their cost sheets and other records, including estimates of future sales and costs. They maintain that publicly-owned companies already report their earnings in all pertinent detail; that forecasts of future conditions are not "facts" and that no board could pass upon them; and that if the conclusions should be favorable to management's case the labor unions could reject them as incomplete or biased, — as could management if the conclusions supported the labor case. More fundamentally, representatives of management take the position that "fact-finding" would aim in last analysis at determining profits, or "ability to pay", and that either ability or inability to pay is not a proper factor for consideration.

To the general public the idea of fact-finding as a basis for solving controversies undoubtedly makes a strong appeal. Any man of competence and experience, when confronted with a difficult problem, asks for the facts, and in every dispute impartial examination of facts is the clue to wise decision. For example, the question of the productivity (man-hour output) of labor rightly has a prominent place in arguments over wage rates, and it is difficult to see how the facts on productivity can be obtained without examination of the records. Where statements of labor unions and corporations are contradictory, and where facts are selected to emphasize one side of the matter at the expense of others, it is in the interest of truth and justice to clear up the differences. Fact-finding is a form of conciliation, avoiding the objections that can be made to compulsion.

The Basic Question

The basic question therefore is not whether fact-finding as such is desirable but rather, what are the pertinent and relevant facts? Can all be determined and presented speedily, correctly and impartially? What safeguards are provided against possible abuses of the fact-finding process, such as unwarranted fishing expeditions, disclosure of private information, etc.?

Through sound legislation and administration it should be possible to prevent abuses, but specific safeguards in the law would be desirable. The other two questions present greater difficulties. A fact-finding board cannot decide what facts are relevant unless it has some conception or theory of how wages should be established. The question is, what theory will be followed and will the general public interest be paramount?

The danger in the present situation is that fact-finding would be concentrated upon the profit position of the employer — "ability to pay" — to the exclusion of other factors. Due to the insistence of the unions that employers can grant their wage demands without raising prices, many people think ability to pay is the whole area of controversy. They hardly stop to examine all the implications of the argument, since at first thought it seems quite reasonable that a manufacturer who is making money or expects to make money should raise wages as much as he can. Hence they think that if a public body determines facts as to ability to pay there will be no further room for dispute.

However, the superficial plausibility of the idea should not obscure the fact that as a theory of wages the setting of wage rates according to ability to pay is both impracticable and unsound. It is against the long run interest of the public and of workers themselves. The unions obviously would not want to apply it consistently and uniformly even now, since it cuts both ways and would lead to wage reductions wherever profits are non-existent or inadequate.

A One-Way Argument

There are at least three major points to be considered in examining the idea that wage rates should be in proportion to ability to pay. The first pertinent fact is that the theory is one which labor in practice will use only in good times, when profits are large. In bad times the theory would require workers to take cuts and in many cases drastic cuts, to conform to the reduced ability to pay of the employer. But the unions do not accept "inability to pay" as justification for wage cuts. All past experience suggests that in bad times they would find other reasons, such as "maintaining purchasing power" or "preserving living standards", why they should not take such cuts. The tendency of wage increases to become frozen, and of labor to resist cuts by any means in its power, is increased as unions become larger, stronger and more dominating.

The first point, therefore, is that "ability to pay" is a one-way argument, fitted to present conditions, but certain to be scuttled when conditions change. Yet the rates established in the abnormally good years would remain to block cost and price reductions when the poor years come, and when price reductions are called for not primarily to protect the profit margin but to maintain sales, production and employment.

Unequal Pay for Equal Work

The second error in the ability to pay theory is that if it is literally applied it must result in gross inequalities in wage rates. Under this theory the rates paid by an enterprise of superior efficiency or good fortune on one side of the street might be substantially above those paid by a run-of-the-mine enterprise on the other. One division or plant of a corporation might pay a lower wage for the same work than another division or plant.

This violates labor's own principle of equal pay for equal work. In practice it is impossible — just as it is impossible to maintain two water levels in the same pond — to maintain wage rates which are not in reasonable balance with other wage rates, with due regard for differences in skill, nature of work, convenience of location, and other factors. Labor will not accept gross inequalities, nor can employers afford them. It is a truism that wage increases by one plant in an area have to be met by other plants in order to hold their workers. Otherwise the most efficient labor would soon be in the high wage plant; the poorer labor would be in the low wage plant, and probably it would be striking for higher wages.

The theory of ability to pay could not long survive such strains. All plants except the most prosperous would feel the pressure, and all wage rates would gravitate toward the ability of the most prosperous to pay. This is a condition that the less prosperous — usually the smaller producers — could not sustain. They could not withstand the squeeze due to the increase in their costs. If they were granted special price relief the unequal prices resulting would eventually force the higher-priced product out of the market.

The Interest of the Public

The third major point is that if every rise in profit is to be turned into a wage increase, which is the ultimate end of adopting the ability to pay principle, there can be no hope of either higher rewards for the producer or lower prices for the consumer. Wherever there is room for wage increases without raising prices there is obviously room for reducing prices.

The industries over the years have constantly made technological gains through better methods and the investment of capital in better equipment. These gains have been roughly divided, through the operation of free competitive markets, between the consumer, the worker and the owners of the business. The workers have received not only higher money wages and shorter hours, but they as well as other consumers have bought the products of the developing industries at lower real prices. The result of passing on part of the gain through lower prices is that the market has broadened, production has increased, and more employment has been created. The standard of living of all has been raised.

Meanwhile earnings have been plowed back into the business and invested in more tools, to increase the productivity of the worker and yield further gains for all concerned. This is the familiar story of the growth of industries since the industrial revolution took place. It has been repeated time and again. It has lifted untold numbers of people from economic degradation and it must continue if historical progress is to be carried on.

The key to the general progress is found in the diffusion of the gains of technological improvement. If capital had not received part of them, the increase in capital funds would not have been sufficient to increase and improve

the tools of production. If the consumer had not received better goods at lower prices, markets would never have grown and production could never have reached the volumes known today.

To give to labor all the gains of technological progress would deprive capital of anything above a fixed return and remove the hope of profit which is the incentive to risk-taking. It would deprive the consumer of the benefits of lower prices and so block expansion of sales, production and employment. It is true that some labor might have a larger money income, but all the unionized workers in the country constitute only about one-fourth of the total number of workers, and therefore buy only a small part of what they produce.

People who have not been accustomed to thinking of wage problems in this light will doubtless ask what assurance there can be of diffusion and equitable distribution of the gains of progress, — how they can know, for example, that the consumer would receive the benefit if the unions should moderate their demands in the interest of the consumer. The answer is that in free and open competitive markets a state of perpetual excessive profits is impossible, for other producers are attracted to the field until prices are affected and the balance restored. In the long run competition must govern. For the short run, the price decisions of management might conceivably contribute to instability by temporary overpricing and excessive profit. It is the responsibility of management to avoid such practices; and it is so obviously in the long run interest of management to do this that the theory of broadening markets by selling better goods at lower prices has won almost universal acceptance. The desire of leading manufacturers today to sell their products as close to prewar prices as possible is a striking feature of business planning.

For the present of course the Office of Price Administration has jurisdiction over prices.

What Facts Are Relevant?

In thus briefly describing the three chief errors in the concept of tying wage rates to ability to pay, our purpose is to utter a warning against an unreasoning belief that it can be the only, or even a principal, criterion of what wage rates should be. Actually it is but one of many considerations, and in the fact-finding procedures it should be kept in its place as one of many.

Facts pertinent to the present wage controversies fall into certain natural groups. Since the origin of rising living standards is in the productivity of the workers, the facts bearing on productivity are of first importance. Is productivity as expressed in output per man-hour higher or lower than before the war, and is it currently rising or falling? What has been the effect of productivity changes and wage changes on unit costs? What capital investment is required to increase productivity? If it is established that gains are being made, the next question is whether they are being equitably distributed between labor in money wages, capital in return on investment and reward for risk-taking, and the consumer in fair prices. Do the wage rates paid or proposed price the product out of the market?

A second set of facts which are pertinent concerns the cyclical nature and history of the business. From past records, what are the fluctuations to be expected in production, sales and earnings? What has been the return of the various elements of production, — labor, capital and management, — over complete cycles? How should this affect interpretations of present ability to pay? Do costs cover research and development, on which growth and progress depend?

A third group of facts concerns the balance in the wage structure. How do rates paid by the company compare with those paid by others for equal work in the labor area and by competitors in the industry, and with returns received by farmers and other self-employed? How are they related to changes in the cost of living? What has been the trend of these relationships over a period? Are there other capable workers, in sufficient numbers, who would like to have the jobs at the wages employers are offering? Do wage rates price labor out of the market and cause unemployment?

Finally, it is entirely proper that fact-finding should include with its search into productivity and technological progress an inquiry into limitations and restrictions on production, if any, by union regulations; into "feather bedding" practices; and into any other conditions that may raise costs by restricting output per man-hour.

The Purpose of Fact-Finding

The purpose of fact-finding is to influence public opinion to accomplish a settlement on a sound basis and in the general interest. Facts such as we outline above are more pertinent to the formation of sound opinion than is the current profit margin or ability to pay. The task of determining them is formidable, and to compile and present them accurately, impartially and intelligibly requires ability and devotion of a high order. Yet if it is to be helpful fact-finding should include all the facts, and it should be carried out from the standpoint of the public interest.

The present danger is that if the unions exact and are allowed exorbitant wage increases

from those employers who may be able to pay them during the boom times without raising prices, the wage level for all companies will be raised. It is idle to believe that wages can be generally advanced without raising prices; for the alternative would be that the less prosperous companies would have to produce at a loss. Thus the effects of adopting the principle would be inflationary, despite the paradoxical fact that, as labor and government use the term, "ability to pay" means ability to pay without raising prices.

In establishing public policy, it should be understood that what is at stake in the wage disputes is not the ability of one company or a dozen companies to pay higher wages. It is the welfare and the stability of the whole economy. The issue is, first, whether prosperity is to be increased and diffused by distributing the gains of progress, as against monopoly of the gains by any group. It is, second, whether current inflationary trends are to be arrested by keeping restraint on costs, or whether the boom and bust route is to be followed.

Victory Loan Results

Subscriptions to the Victory Loan approximate $20 billion, against a quota of $11 billion. In addition, but not counted in the drive, are limited subscriptions by commercial banks against time deposits and purchases by federal trust funds and agencies, amounting to perhaps $2 billion.

While it is not yet clear whether the $2 billion quota for E bonds was quite reached, the $4 billion quota for total individual subscriptions was largely exceeded by reason of heavy purchases of the marketable 2½s. Including corporate and institutional purchases, and those outside the scope of the drive, sales of these 2½s of December 1972/67, now the largest as well as longest issue, exceeded $10 billion and topped the 7th War Loan 2½s by over $2 billion. No issue comparable to the 5½ year 1½s of the 7th loan was again offered, but sales of other issues fell below the 7th.

As a consequence of investor belief in continued low interest rates and preference for the longer-term high rate bonds, the average interest cost to the Government of the money obtained from the Victory Loan approaches 2⅛ per cent (using E, F and G bond rates to maturity), compared with 2 per cent for the 7th drive, 1¾ to 1⅞ per cent for the 6th, 5th, 4th and 3rd, and 1⅝ per cent for the first two drives, in which commercial banks were allowed to subscribe directly.

The continuing reduction in the supply of bank eligible bonds as outstanding issues mature, with no new or refunding bonds offered, has in the face of an active demand resulted in constant pressure upon the yields from these bonds. Since the opening of the Victory Loan drive on October 29, the 6th War Loan 2s of 1954/52 have risen from 103½ to 104⅜ with consequent reduction in yield from 1.47 per cent to 1.33. Longer term issues have exhibited even greater strength, the 2½s of September 1972/67 rising from 105 19/32 to 108 26/32, at which price the yield is only 2.00. Yields on all taxable bank eligibles callable after seven years have reached new all-time lows.

After a long period of declining yields on the total investment portfolios of all member banks, from 4.7 per cent in 1929 to 3.3 in 1934, 2.3 in 1939 and 1.5 per cent in 1944, yields on bank eligible governments have now shrunk to such an extent that if commercial banks had to repurchase their existing portfolios at present prices, they would realize an average return of little over one per cent on the investment.

With the Treasury balance now over $26 billion against a prospective deficit for the next six months of but $8-10 billion, no more new money need be raised until the next fiscal year, with the trend after that depending upon the extent of new commitments for expenditures entered into by the Government, the amount of net cash redemption of savings bonds, and the policy on tax reduction. The Social Security and other government trust funds and agencies have been absorbing about $5 billion a year, and should permit a substantial decrease in open-market debt once the budget is brought into balance.

Use of Bank Credit in War Finance

Although the primary purpose of government financing has been to raise the funds required, another important consideration has been to absorb as much as possible of the excess of inflationary money, created by government expenditures and not offset by production of civilian goods and services.

During the Victory Loan, commercial bank absorption of government securities was apparently in the neighborhood of $6.3 billion, which was less than in most previous drives. Loans against securities, totaling around $3.1 billion, on the other hand, were apparently larger. The aggregate of commercial bank credit, including government securities purchased by the Federal Reserve Banks, was apparently almost as much as in the larger drives, and represented a larger proportion of the net increase in government debt during the drive period.

Whereas in the Victory Loan the percentage of credit involved was apparently larger than in earlier drives, the figures for the entire year 1945 indicate a somewhat lower percentage of government borrowing financed by the com-

mercial banking system than in earlier years. This is shown by the following table:

Increase in Total Government Debt, and Portion Taken by Banks During Calendar Years 1942-45
(In Billions of Dollars)

	1942	1943	1944	Est. 1945	Total 1942-45
Interest-bearing Debt, Direct & Guaranteed, Net Increase	$47.8	$57.1	$61.6	$46.5	$213.0
Taken by Banks:					
Commercial Banks	19.7	18.8	17.8	10.7	67.0
Fed. Reserve Banks	3.9	5.3	7.3	5.2	21.7
Total	23.6	24.1	25.1	15.9	88.7
Financed by Banks:					
Loans against Securities	.2	.8	2.2	3.0	6.2
	23.8	24.9	27.3	18.9	94.9
% Taken or Financed by Banks	50%	44%	44%	41%	45%

In the entire four years 1942 through 1945, approximately 45 per cent of the funds borrowed by the Government was provided by banks. At the end of 1945 commercial bank holdings of the national debt are estimated at $88 billion, or 32 per cent of the $279 billion total, while Federal Reserve Bank holdings were $24 billion, or 9 per cent.

The Anglo-American Financial Agreement

In the restoration of the world economy from the widespread breakdown caused by war, many have contended that second only in importance to a strong, stable, and free dollar is a plan for meeting the British exchange problem. Throughout the discussions leading up to the adoption of the Bretton Woods Agreements Act by our Congress, this view has been stated repeatedly.

Thus as early as the Fall of 1943, shortly after international currency plans were first proposed, the Economic Policy Commission of the American Bankers Association said in a report on the "Place of the United States in the Postwar Economy":

> The second step (following establishment of a stable, freely exchangeable dollar) should be to establish definite rates between the dollar and the pound sterling — the two currencies in which the major part of world trade has been conducted for the past century. This step involves the whole problem of the reestablishment of the British monetary and trade position on a sound basis. We must assist in the solution of this problem if currency stability is to be achieved promptly.

The problem facing Great Britain has two aspects, both of them arising largely out of the role borne by Britain in the combined war effort. The first of these concerns the deficit in the external balance of payments expected during the critical years just ahead. Import needs for food, raw materials, and reconversion equipment are certain to be heavy, while at the same time Britain will still be engaged in the formidable task not only of building back exports from the drastically low levels to which they were slashed during the war, but of expanding them 50 to 75 per cent in volume over prewar in order to compensate for loss of income from foreign investments, shipping, insurance, and other services caused by the war. In the calendar year 1946 alone the balance of payments deficit is estimated at roughly $3 billion, with the possibility of a cumulative deficit before equilibrium can be reached of $5 billion or more, depending upon the rate of recovery of exports.

The second aspect of the British problem arises out of the $14 billion of indebtedness of the United Kingdom to overseas countries in the shape of sterling balances and other liabilities accumulated for the most part during the war. The existence of these large foreign holdings of sterling has been a major obstacle to removal of exchange restrictions and reestablishing the normal international trade relations which are essential to our own well being.

The Anglo-American financial agreement approved during December by the British Parliament, along with the Bretton Woods pact, and now awaiting action by the American Congress, is a recognition of the key importance of the British exchange problem. In the months that have passed since the adoption of Bretton Woods by our Congress, it has become increasingly clear that progress towards the Bretton Woods objectives will remain stalled on dead center until this problem is dealt with. The British Chancellor of the Exchequer, Hugh Dalton, stated in Parliament that, without accepting the loan, Britain does not have the financial strength to undertake the obligations of international stabilization planned at Bretton Woods.

What the Agreement Calls For

Stripped down to the major points, what the agreement proposes is the following:

1. Settlement of U. S.-British lend-lease. This involves (a) the writing off by the United States of $25 billion of British obligations, representing munitions, food, clothing, etc., contributed by us to the British military effort during the war in excess of materials and services received back by us under reverse lend-lease, and (b) a loan by this country to Britain of an estimated $650 million to cover lend-lease goods in transit and delivered after V-J day and purchase of surplus United States war properties and installations in the United Kingdom, payment to be on terms similar to those indicated in paragraph 2 below.

2. A line of credit, or drawing account, of $3,750 million, available up to December 31, 1951, to assist Britain in financing its current balance of payments deficit during the transition period. Payments of principal or interest would not be required until December 31, 1951, when repayment of any sums drawn down would commence in fifty annual instalments, with interest at 2 per cent, making the effective rate over the entire fifty-five-year life of the credit about 1.62 per cent. The agreement provides for a waiver of interest, but not principal, payments in any year under conditions where such transfer would require cutting British imports below the prewar level. None of this credit could be used to pay off Britain's other creditors.

3. Removal within one year of sterling area exchange restrictions to enable each member of the sterling area to use its current sterling and dollar receipts from exports for current transactions anywhere. This abolishes the wartime "dollar pool" into which all dollars received by sterling area countries were paid during the emergency, thus limiting the amounts which these countries have been free to spend for themselves in the United States.

4. Effective immediately, Britain would agree not to restrict payments for permitted American imports or other current transactions with this country, and after one year not to restrict payments for permitted current transactions with other countries. The U. S. and U. K. agree to lifting as soon as practicable, but with a leeway of one year from December 31, 1945, of discriminatory quantitative import controls (quotas, import licensing, etc.) against each other's products. All of these provisions operate only to December 31, 1951, it being assumed that by then more comprehensive arrangements will have been arrived at by multilateral agreement.

5. Great Britain to seek prompt adjustment of the $14 billion of externally-owned sterling balances; part to be released at once and convertible into any currency for current transactions, part to be released in instalments over a period of years beginning in 1951, and part to be written off as a contribution by the creditor countries to the cost of the war and to the working out of a practicable basis for postwar trade.

6. Agreement by both countries in sponsoring a set of trade principles to be administered through an International Trade Organization under the Economic and Social Council of the United Nations. These principles, while allowing for a transition period, look towards substantial reductions of tariffs, quotas, trade barriers and trade discriminations of all kinds. They contain provisions relating to activities of private cartels and combines and of government foreign trading agencies and monopolies, and for setting up inter-governmental agreements for control of surplus commodities.

In accepting these principles, Great Britain would undertake a commitment towards reduction of imperial tariff preferences, while the United States on its part would pledge itself to seek further lowering of its tariffs through bargaining under the Reciprocal Trade Agreements Act.

In order to implement the above principles and set up the machinery of the International Trade Organization it is proposed to call an International Conference on Trade and Employment of the United Nations, to meet not later than the Summer of 1946. Invitations to a preparatory session of this conference, probably to be held sometime next Spring in Europe, were sent out last month by this country to fourteen other nations, with suggestions that they come prepared to negotiate with the United States for reciprocal lowering of tariffs.

The British Point of View

This agreement has been ratified by the British Parliament with a great deal of reluctance and misgiving. The British had hoped for a grant-in-aid or for an interest-free loan in recognition of the unstinting manner in which they devoted their industrial, manpower, and financial resources to the war, pouring out their wealth and accumulating heavy debts over a period in which part of the time they were holding the fort practically alone against the enemy. They fear that the interest cost will place too heavy a burden on their balance of payments position, already weakened by the war, and that exchange controls are being relinquished too rapidly. There is the old underlying distrust — operating against both the loan agreement and Bretton Woods — of anything that seems to tie them to the gold standard.

While most of the British comment so far reported over here has been critical of the loan, not all of the expressions have been in one vein. In the opinion of the London Times, "the first impression is that the agreement is a highly constructive step," and the Labor Government "has made a courageous move" and "has reckoned the immediate necessities of the British and the fruitful possibilities of Anglo-American cooperation as of greater substance than the considerable risks which are undoubtedly in the agreement." And there have been other expressions in like tone.

On the other hand, there is the assertion by the London Economist:

> We are undertaking to pay America, to pay our other creditors, to accept limits on the power to devalue sterling and to put no check on complete convertibility for current transactions. To win this battle,

we shall need to take all the tricks — and the only trump cards we have are taken away from us. It is cruelly hard.

Said the moderately conservative Spectator, "If in these conditions we now accept the loan granted by Washington it is not because we think the terms are reasonable; it is because we have no choice."

From the left-wing weekly, The New Statesman and Nation, the following:

We have been forced into a disastrous bargain . . . we run grave risk of ultimately being compelled to invoke all the ingenious "escape clauses" in the agreement and of becoming an insolvent debtor when we shall have forfeited our power of economic independence.

Debates in both Houses of Parliament have reflected much the same reaction. The Chancellor of the Exchequer, in presenting the agreement to the House of Commons, felt obliged to say that the terms "fell far short of what we should have desired or what we strove for, but to those critics of these arrangements I put one blunt question: What is your alternative?"

Lord Keynes, who headed the British loan delegation, urged in an eloquent address in the House of Lords that the plan be accepted "as a workable compromise between the certainty that they (the United States) wanted and the measure of elasticity that we wanted." Though not hiding his disappointment with the terms, he nevertheless defended the agreement as "an act of unprecedented liberality." The amount of the loan, he said, was "cut somewhat too fine . . . the charging of interest is out of tune with the underlying realities" . . . yet "no comparable credit in time of peace has ever been negotiated before." The United States negotiators, he asserted, had based their attitude on "their ardent desire to see this country a strong and effective partner in guiding the distressed and confused world into ways of peace." But "we soon discovered," he said, "that it was not our past performance or our present weakness, but our future prospects of recovery and our intention to face the world boldly that we have to demonstrate."

On the Conservative party side, the attitude has been that, while the loan could not be refused, the Labor Government must accept full responsibility for its terms, and the party membership in Parliament was advised to abstain from voting. In a vigorous attack in which he blamed the terms partly on American suspicion of the "socialistic trend" in Britain, Mr. Churchill voiced objections to the requirements of the credit:

If the United States had seen fit tc say "We shall give a grant-in-aid or a loan without interest" it would have been very natural to share their benevolent act and understanding on other matters As it is, we seem to have the worst of it both ways. Everyone has drawn attention to the proposal that sterling be convertible into dollars within so short a time as fifteen months, whereas at Bretton Woods it was contemplated that there should be a delay of as much as five years before we accepted convertibility as a definite legal obligation.

This convertibility within fifteen months appears to be a proposition so doubtful and perilous that in practice we can only hope it will defeat itself. It is — in fact we hope — too bad to be true.

At the same time, Mr. Churchill went on to speak in such generous terms of the aid rendered by the American people that his words may well be repeated in view of the many harsh accusations being bandied about. Characterizing lend-lease as "the most unsordid act in the history of nations," Mr. Churchill continued:

Whatever complaint we make about these present proposals and whatever misgivings — and they are very serious — may be aroused in our breasts by them, the generosity and companionship of the United States in the cause of freedom will ever stand forth as a monument of human virtue and of future world hope.

While in the final show-down, the agreement was voted by Parliament by large majorities — 345 to 98 in the Commons, and 90 to 8 in the Lords — its acceptance was largely a matter of Labor party discipline and, as Mr. Dalton suggested, lack of a practicable alternative.

First American Reactions

First reactions to the agreement in this country have been mixed, with opinions ranging all the way from the group that feels America has been "outtraded" again to those who believe we should have gone further in extending a grant-in-aid or a loan without interest. Most people, apparently, have not yet made up their minds, and want to give the program more thought. The bill to implement the agreement is not yet presented to Congress, and hearings will await the reconvening of Congress after the holiday recess.

Among important business groups, the National Foreign Trade Council, in a formal statement by its executive committee, has taken the lead in giving endorsement to the loan plan. The committee found the agreement as "conforming generally to recommendations of the Council in regard to extension of financial aid to Britain, coupled with modification of exchange controls and trade barriers." Cooperation between the two governments along the lines laid down is, the committee said, a prerequisite to restoration of a healthy world economy and the establishment of the International Monetary Fund and the International Bank for Reconstruction and Development. The report warned, however, that the granting of this credit "must not be viewed, here or abroad, as tantamount to a lien on American production." World economic recovery, it said, is contingent upon

prompt reconversion in the United States and the maintenance of our economy at a high level.

Certain features of the agreement apparently have met with quite general approval. These include (a) the settlement of lend-lease on a basis that avoids the error of the old war debts, (b) the agreement on principles for restoring multilateral trade, (c) the plans for international trade conferences for putting these principles into practical application and for broadening their scope to include countries other than the United States and Great Britain, (d) the lifting of sterling area exchange restrictions from current transactions, and (e) the program for adjustment of the "blocked' sterling balances accumulated during the war.

On the other hand, questions are raised as to how successfully the principles stated in the agreement can be carried out. In any agreement dealing with so many complex influences and subject to so many future uncertainties there has to be flexibility; but this means the leaving of loose ends and possible loopholes. There is questioning whether, even with the help of this loan, Britain can come through. There is questioning as to how many similar projects calling for large sums for other countries may be in the offing.

There is no doubt that the British loan labors under a heavy handicap in coming after Bretton Woods which, the American people were told, was going to stabilize currencies, eliminate exchange restrictions, and do away with economic warfare. Now they find they have to put up more money, with the same arguments being used over again.

Finally, it should be frankly stated that some of the things the British have been saying about us in connection with the terms of the loan have come as a shock and surprise to many of our people, just as some of the things that may be said during the heat of debate when the loan comes up in Congress may seem harsh and unfriendly to many Britishers. Stressing the need for more mutual understanding, the New York Times correspondent, Anne O'Hare McCormick, undoubtedly put her finger on one of the basic difficulties of the whole discussion when she said in her despatch from London of December 14:

> **Reports relayed here from the United States show Americans have no idea how the average Englishman feels on this subject (the loan). They don't realize how galling it is to have no choice but to accept terms that seem to him to interfere with Empire trade and put him under financial tutelage to the United States for the rest of the century. Since so far he has enjoyed none of the expected fruits or relaxations of victory, this makes him wonder more than ever whether he really won the war.**
>
> **Press comments here make equally clear that the British on their side have no conception of the United States' problems or the United States' state of mind. They do not realize the burden of debt overhanging the United States or the prodigious difficulties growing out of overexpansion of war industries at the expense of others. Thinking in terms of a creditor nation of the nineteenth century, they cannot understand the impact on American public opinion of the unprecedented demands for help everywhere.**

Decisions Still Pending

As suggested in the discussion above, there is of necessity much in the agreement, integral to its success, that is left for future decision and development.

There is still the task of negotiating a practical adjustment of the $14 billion of sterling balances owned abroad. The United States has quite properly left this to be worked out between the United Kingdom and the countries directly concerned, of which the most important in point of sums involved are India and Egypt. The United States has taken a lead in recognizing the difficulties in such huge one-sided transfers over the exchanges by cancelling the British lend-lease war debt. In putting $3,750 million of new money into the pot to aid Britain in covering its current balance of payments, this country counts upon the United Kingdom and its creditors, mostly Empire countries, getting together upon some realistic formula, combining unfreezing, cancellation, and deferred payment, for dealing with these war-created obligations. Until this is done, the objective of getting rid of currency blocs, bilateral trading, etc., will remain unrealized.

There is also the matter of agreements on commercial policy to be taken up at the international trade conferences planned for the coming year. The program is an ambitious one — perhaps too ambitious in some particulars; and the reaching of such agreements promises to be no easy affair. Yet unless the various nations can agree on a basis that will reduce trade barriers and permit an expansion in the flow of commerce, international loans will only postpone the day of reckoning and the money advanced will be lost.

We hear much about the stimulus to trade and employment that will result from the lending of $3,750 million to Britain and from the proposed lending of additional billions to other countries. These predictions will probably prove correct — as long as the money lasts. But we shall need a trade expansion that is something more than a flash in the pan if Britain and other countries are to be able to repay us, and if we are to be in a position to receive the necessary quantity of goods and services in payment. The success of the financial arrangements depends upon what we and other countries do in following through with a commercial program that opens up world trade.

Policy on Future Lending

With the Anglo-American agreement awaiting approval by Congress, it is well known that other countries are, or soon will be, knocking at our door. No doubt most, if not all, could obtain credit in reasonable amounts through the Export-Import Bank, the International Bank to be set up under Bretton Woods, or — in a few cases — regular market channels. Will the lower interest rate and other special considerations of the British loan be regarded as setting a precedent, encouraging other countries to expect similar treatment?

This is a real danger. There is, however, no proper analogy between the case for Britain and that for any other country. Quite apart from the natural feelings of friendship that exist between the two great English-speaking democracies, the compelling argument for Britain is that country's outstanding importance as a great center of world trade and finance on which many other countries depend. Without a freely convertible sterling there will be scant hope of achieving the multilateral trading system which has been the traditional goal of this country. Of no other currency save the dollar is this true to anywhere near the same extent. Not on the basis of sentiment, or of looking backward, but on the basis of our own interest in world trade recovery, the British position is wholly exceptional.

We need to consider carefully how much farther it is safe to go in lending in view of our national debt now $279 billion, our foreign commitments already made, and the purchasing power represented by the large gold and dollar exchange holdings of foreign countries.

Our subscription to the International Monetary Fund is $2,750 million and to the International Bank $3,175 million, while the enlarged Export-Import Bank has a lending power of $3,500 million. The British credit is $3,750 million, plus $650 million for settlement of lend-lease goods in transit and surplus property. Similar credits for lend-lease settlements not handled through the Export-Import Bank include $575 million to France and $400 million to Russia. Our original contribution to UNRRA was $1,350 million, and Congress has just approved an additional contribution of the same amount.

The above alone totals over $17 billion, and still does not allow for additional "pipeline" lend-lease credits pending, or for eventual claims upon us from the Bretton Woods institutions perhaps much larger than our subscriptions, due to the possibility that the Monetary Fund may borrow additional dollars and the likelihood that the major share of whatever part of the International Bank's $10 billion authorized lending power is used will almost certainly be extended in dollars. There will also be advances and credits made by private banks or floated in the open market, and direct investments by American concerns abroad.

Some of our commitments involve direct expenditures through the federal budget, while others will be financed outside the budget. Some of the funds provided, such as those for settlement of lend-lease goods in transit and surplus property, and part of UNRRA and Export-Import Bank funds, have already been spent, but the major portion represents new or potential demands upon American production.

In addition, foreign countries hold in excess of $20 billion in gold and dollar exchange, an indeterminate amount of which would be available for expenditures here.

All this shows the heavy commitments which the United States has already made for foreign relief and reconstruction, and the potential demand for American goods now being built up. The combined total of these actual or potential claims is easily $40 billion, without including some very large foreign reconstruction loans that have been talked about.

As we hear the calls of distress from over the world and see the need of funds for reconstruction, we know that some American money should and must be used even for our own interests as part of a sick world. On the other hand, we know that inflation has travelled fast both at home and elsewhere, and more credit means more inflation. After World War I and in the 'twenties we financed inflation with American money. Then when we found we had invested too freely, we stopped suddenly. We run the risk of doing just the same thing over again. We are riding on a wave of public approval of all things international. It will bear us too far unless we are prudent. When we find we have been carried too far, our feeling will change. Nothing could be worse for sound and continuing international collaboration.

Moreover, lending U. S. public money around the world means more government borrowing from our own people, with consequent increase in interest charges and in taxes. The tax burden we now have to carry is already so heavy as to impair incentive. Nothing could be worse for a vigorous and expanding economy at home than to lose the driving force that comes from adequate reward for success.

The question that Congress and students of the situation will ask is whether the $4.4 billion British loan is just another step in a huge foreign lending program with the purpose of stimulating full employment in the United

States, with all too probably a burst of inflation and a boom followed by a crash, or whether it is, on the other hand, a step in a more prudent and closely controlled program in which the British loan will be unique.

Can Britain Pay?

Will Great Britain be able to make the payments of interest and principal called for in the loan contract? This is a question that everyone asks, not only in this country but also in England, for Englishmen with their high regard for their bond do not want to assume obligations they cannot meet.

It seems clear there can be no certain answer. It depends upon too many factors, the working out of which cannot be foreseen in this troubled and rapidly changing world.

There is, first of all, the question of how successfully the British are able to utilize the breathing spell afforded by the loan for working out their own problems at home. This involves problems of reconversion, of reorganization and rationalization, and in general of raising the efficiency and productivity of British industry. There is the question of emphasis — whether the major effort is going to be directed to meeting these problems or whether it is going to be diverted by pressure for immediate realization of social objectives.

Contrary to frequent assertions during the debates in England over the loan, and to a widespread impression in this country, British balance of payments difficulties are not wholly a product of the war. Britain was having trouble with its trade balance before the war. Despite Britain's recognized leadership in many industries where skill and craftsmanship of individual workers are a major factor, and its high standard of efficiency and excellence of product in some of the newer industries, the fact is (revealed in numerous British reports) that Britain was losing out in world markets on some of the major export lines — notably coal, cotton textiles, iron and steel — on which it had depended. The causes of this are complex, but include failure to keep abreast in promptly scrapping outmoded equipment and methods, and in making the investments necessary to have the advantage of the latest techniques. Many Americans, who recall how often apologists of the Government's spending policies of the '30s in this country pointed to the example of Great Britain with her much heavier (then) national debt and taxation, now wonder whether the blighting effect of such taxation upon incentives may not have had something to do with discouraging British industries that were falling behind from making the needed adjustments.

A second question relates to Britain's success in dealing with difficult Empire problems, notably that of India, on a basis that will promote the harmonious and peaceful relations necessary to a flourishing trade.

A third question has to do with the general volume and stability of future world trade in which Britain may expect to share. This concerns the organization of the peace and removal of fear of war; and it involves questions of trade barriers and of other national policies bearing upon international trade that are to be the subject of discussion at the coming international trade conferences. It is concerned, further, with the maintenance of a stable economy in this country, with all that means in budget control and avoiding inflationary peaks that have their inevitable counterpart in the depressions that follow.

That the British realize the magnitude of the job they have ahead is evident in the exhortations of their leaders for greater industrial efficiency, along with an austere program of belt-tightening for the individual citizen. It is reflected in the statements of Sir Stafford Cripps, president of the Board of Trade in the Labor Government, that "by sacrifice and hard work, Britain must find ways of exporting more goods so that she can purchase essential imports." And again, "we cannot, therefore, neglect any steps which will make our industry more competitive in the markets of the world."

For these various reasons, it is impossible to determine definitely in advance Britain's capacity to pay or its capacity to carry out the other commitments in the agreement. But the loan and the agreements that go with it represent an effort in the direction of reestablishing world trade on a multilateral basis, which has always been the American system and was that of Britain during the heyday of British commercial expansion up to the first World War. Without the loan it seems inevitable that Great Britain would have to follow the pattern on which Germany operated in the '20s and '30s, — that is, bilateralism, trade quotas, exchange controls and managed currency. With the loan accord, there is at least a fighting chance that we and Britain, working together, could reconstruct the kind of an international trading system which will best promote growth and stability in world commerce.

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